

**House Committee on Appropriations
Hearing on
Economic Recovery Bill
Statement for the Record
Submitted by
Reps. Farr, Roybal-Allard, Lee, Schiff and Honda
December 10, 2008**

Introduction

From the Gold Rush days to the explosive growth of the Internet at the beginning of the 21st century, California's economic history has been one of constant change, growth and prosperity. Starting as a sparsely populated Western frontier with fewer than 100,000 residents in 1850, California's population now exceeds 34 million. From an economy that was too small to measure before the Gold Rush, California is now the eighth ranking economy in the world, about the size of Mainland China, and larger than Brazil, Canada or Spain. California's gross product exceeded the trillion-dollar mark in 1997, the first state to achieve this record. Last year, it was the first state to top \$1 trillion in personal income.

Beyond size, California is also a world technological and economic leader. California is an example of what the future has in store for the rest of the nation. It has been the birthplace of many of the world's most significant technological innovations, social trends, and is a model of economic innovation and prosperity. As this new century begins, there are few economies better suited to this new "information age" than California's.

California possesses a vibrant and diverse industrial tapestry. Historically, the state's remoteness from the industrial states of the East and Midwest caused it, from the beginning, to develop a fairly complex economy, rather than one devoted to a few specialized industries. Over time, new industries were introduced that, rather than displacing established industries, were simply added to the existing base, which heightened its complexity. This pattern of adding rather than displacing industries gives California its rich economic texture in which long-established industries, such as agriculture and mineral extraction, thrive alongside emerging industries, such as biotechnology, telecommunications and the Internet. Thus, from its frontier beginnings, California has become the largest and most diverse economy in the nation.

Current Fiscal Situation

California faces a massive budget deficit of at least \$28 billion over the next 20 months, as concluded by the state's non-partisan Legislative Analyst. Last week, the Governor called a Special Session to begin the process of addressing this budget shortfall. On December 8, 2008, the Senate and Assembly held a Joint Convention of the Legislature on the State Fiscal Emergency to hear directly from the State Treasurer, State Controller, The Legislative Analyst and the Director of Finance about our state's current fiscal picture and cash shortage.

The budget balancing plan California is currently considering will close the deficit by imposing tax increases on all Californians and slashing more than \$10 billion in essential services including education; healthcare; aid to seniors, the blind, and the elderly; public safety; and transportation. These reductions are extremely hurtful, particularly the reductions in safety net programs, when viewed in the current economic climate in which more than 13,000 Californians are losing their jobs each month and may need the benefit of these services.

California needs the federal government to partner with us to help our citizens weather this national economic storm. California is urging Congress and the new Administration to undertake a comprehensive federal aid package, including:

- (1) direct federal-state program assistance;
- (2) federal funding for infrastructure investment opportunities and
- (3) regulatory and policy actions.

Although federal aid alone will not solve all of California's fiscal problems, an infusion of federal funds coupled with economic stimulus programs will provide necessary economic relief to millions of Californians.

Direct Federal-State Program Assistance

As the economic downturn deepens and unemployment increases, investments in existing federal-state programs can quickly distribute funds to the neediest individuals and help avoid cuts to basic services. Additional funding allocations to the following programs can bolster the safety net and be particularly helpful to citizens and states.

Maximize California's Federal Medicaid Assistance Percentage (FMAP)

The FMAP is the federal share of California's Medi-Cal Program. Although California has a large number of low-income and disabled individuals eligible for the program (over 6.6 million people are currently on Medi-Cal), because it has a significant population of high income people, it is considered a "rich" state and receives the minimum 50 percent sharing ratio from the federal government. It is imperative to increase the federal sharing percentage and address the underlying FMAP formula which hugely disadvantages states with high income residents.

Reauthorize the State Children's Health Insurance Program (SCHIP)

Most states, including California, are overspending their SCHIP allocation and have exhausted their prior year unspent allocations. Therefore, reauthorization by March 2009 is critical.

Increase Food Stamp Funding

In California, roughly 1.7 million people receive food stamp benefits. California, however, also has the lowest enrollment in Food Stamps in the nation, failing to collect between \$650 million and \$1.49 billion in federal food stamp benefits annually. Increased funding means more food purchasing power for children, adults and senior citizens.

Extend Unemployment Insurance Benefits.

California would benefit from a further UI extension, improved UI coverage as well as increased administrative funding for states to deal with the increasing number of applicants.

Increase State Criminal Alien Assistance Program (SCAAP) Funding

Currently, California spends approximately \$1 billion per year to incarcerate an estimated 18,000 undocumented felons. However, for the fiscal year 2008-2009, the state will only receive \$110,898,000 in SCAAP reimbursements from the federal government. Congress must increase federal appropriation levels to help offset state costs.

Increase Pell Grant Funding

The credit crisis has made it much more difficult for families to qualify for student loans, especially private loans. For FY 09, the estimated overall Pell Grant shortfall is \$3.5 billion. Pell Grant funding should be increased to cover the shortfall. This will ensure that adequate federal funds are available for all eligible students.

Infrastructure Investment Opportunities

As Congress deliberates a second economic stimulus package, infrastructure investment is going to be an important part of their proposal. The Administration has identified \$28 billion in California's infrastructure needs and ready-to-go projects. Below is a summary of infrastructure investment categories that would benefit California.

Transportation

California has identified over \$5 billion in ready-to-go economic stimulus infrastructure projects in the transportation sector. Federal funds should be provided for California's highways, transit systems, passenger rail and goods movements projects.

Housing

Housing economic stimulus proposals fall into three main categories:

- (1) housing construction related activities;
- (2) foreclosure prevention and mitigation; and
- (3) housing market improvement policies.

The following reflects a broad discussion with various housing advocates convened by the California Housing Partnership and outlines recommendations in each category.

• Additional Funding For Public Housing Preservation

Fund the preservation of existing public housing via construction work identified in HUD-approved five year capital plans.

• Provide Infrastructure Funding through the Community Development Block Grant Program (CDBG) or the Economic Development Agency (EDA)

• Expand Protections for Low Income Renters and Families that have lost their homes.

Support measures that will ensure that low income renters pushed out of foreclosed homes and renters indirectly hurt by the increased demand for rental housing, receive assistance.

- **Extend the Current FHA High Cost Limit**

This limit is set to expire December 31, 2008, and its extension would help prevent further declines in homeownership in the many high cost communities in California and enable existing inventory to be sold.

- **Neighborhood Stabilization Program (NSP)**

Increase Funding and Revise Formula. Most recently, Congress appropriated \$3.92 billion for the Neighborhood Stabilization Program (NSP) which provides emergency assistance to states and local governments. This funding should be made available using a revised formula that focuses more narrowly on the number of foreclosures and loans in default and eliminates or reduces the weight given to “abandonment risk” which unfairly shifted funding away from communities in California.

- **Expand Community Reinvestment Act (CRA) Requirements for Banks**

Banks seeking to fulfill their CRA requirements are still offering better terms than are available in the general market. Congress should require such additional loans in exchange for the billions of dollars that the Treasury is providing to many of the larger banks.

- **Resume Purchases of Tax-exempt Housing Bonds and Low-Income Housing Tax Credits (LIHTC)**

Fannie Mae and Freddie Mac should be directed to resume purchase of tax-exempt bonds and LIHTC. The purchase of these tax credits and bonds will enable local housing finance agencies to do leverage their capital capacity for more housing related construction activities and thereby be a part of the solution to the housing crisis.

Clean and Green Economic Sector

California has taken significant legislative steps to strengthen our commitment to address climate change, decrease our fossil fuel consumption, encourage investment in the clean/green technology sectors and foster green workforce job training.

- Congress and the Administration should pursue climate legislation that is at least as strong as California’s statutes but that does not preempt and/or undercut our current implementation efforts. California stands ready to provide assistance in the development of this legislation.

- Congress and the Administration should provide funding or tax incentives for clean/green technology related activities – green buildings, energy efficiency projects, and alternative transportation fuels and vehicle technologies.

- The economic stimulus infrastructure program should specifically provide funding to achieve our renewal portfolio standard (RPS) goals through the siting, planning, and building of transmission lines. Federal infrastructure dollars for transmission lines will stimulate the economy and put California’s ingenuity and people to work.

- The economic stimulus package should include Workforce Investment Act funding for green

job training programs for displaced workers, at-risk youth and veterans. Congress should consider federal tax credits for businesses that create green collar jobs.

Federal Funding Needed for Flood Control Projects

Numerous California flood control projects and environmental feasibility studies have been authorized by federal and state legislation with costs to be shared among the federal, state and local agencies. California is eligible to receive \$15M for flood control feasibility studies and more than \$112M for flood control projects. Federal funding should be provided for these important public safety projects.

Pressing Regulatory and Policy Actions

Flexible Implementation of HR 6893

Fostering Connections to Success and Increasing Adoption Act. HR 6893 contains various provisions to help support our vulnerable foster children populations. California needs to ensure that flexibility is provided in the federal regulations so that states can implement the provisions of HR 6893 in the way that most benefits vulnerable children.

CalWORKs: Withdraw Pending Draft Regulations

If this rule is not withdrawn a penalty will be assessed and California may be forced to delete its supportive services from CalWORKs via a corrective action plan. The reduction in these services is punitive for CalWORKs recipients struggling to find employment. This rule is ill-conceived and will subject states to undue financial penalties. The Administration should withdraw this draft rule immediately to avoid its potential effect on California and other states.

Reopen Final TANF Reauthorization Rule

California should not be penalized for continuing to retain a safety net component of its CalWORKs program so that children are not harmed by the parent's inability to get or retain employment within the 5-year lifetime limit on assistance. The Deficit Reduction Act (DRA) requires that these safety net families count in the work participation rates (WPR). The federal government should not enforce this final rule and a review of these regulations is recommended especially in light of the economic downturn and its effect on low-income families. The Administration should revise this final rule and not apply financial penalties to states until a new rule is promulgated.

Restrictions on Child Support Enforcement Payments

California along with the National Council of State Legislatures, advocates the repeal of the Deficit Reduction Act (P.L. 109-171) provision that prohibits states from using incentive payments to draw down federal funds. This action will provide additional funding to assist states with collections of child support payments and provide immediate assistance to working families.